



March 23, 2007

Jennifer J. Johnson, Secretary  
Board of Governors of the  
Federal Reserve System  
20<sup>th</sup> Street & Constitution Ave., NW  
Washington, D.C. 20551

Robert E. Feldman  
Executive Secretary  
Attention: Comments  
Federal Deposit Insurance Corporation  
550 17<sup>th</sup> Street, NW  
Washington, D.C. 20429

Office of the Comptroller of the Currency  
250 E Street, SW  
Mail Stop 1-5  
Washington, D.C. 20219

Regulation Comments  
Chief Counsel's Office  
Office of Thrift Supervision  
1700 G Street, NW  
Washington, D.C. 20052  
Attention: No. 2006-33

Re: Comment on Basel II Joint Notice of Proposed Rulemaking – Board  
Docket No. R-1261; OCC Docket No. 06-09; FDIC RIN 3064-AC73;  
OTS No. 2006-33

Ladies and Gentlemen:

BNP Paribas appreciates the opportunity to comment on the Joint Notice of Proposed Rulemaking that implements the Basel II Capital Accord (Basel II NPR or NPR Proposal).<sup>1</sup>

BNP Paribas supports the new international solvency framework and believes that a consistent, orderly and synchronized implementation of the Accord – which plays a key role in the soundness and stability of financial institution – should prevail. In our judgment, the ultimate goal of the Accord is much more a matter of risk discipline and management than of capital requirement level.

We also strongly support the Basel determination that supervision and related capital requirements should be exercised at the top consolidated level of a banking institution in order to be fully comprehensive and efficient in covering all banking and non-banking activities conducted by the enterprise, with supplemental requirements at the depository institution entity levels, as appropriate. BNP Paribas aims at progressively implementing the Basel II “Advanced

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<sup>1</sup> 71 Fed. Reg. 55830 (Sept. 25, 2006). See also 71 Fed. Reg. 77518 (Dec. 26, 2006) (extending the comment period for the Basel II NPR until March 26, 2007).

Approaches”, both for credit and operational risks, at its parent level on a consolidated basis in accordance with the agreed roll out plan and guidance from the “*Commission bancaire*” (the French banking regulator). In this perspective, BNP Paribas hopes eventually to be able to implement the “Advanced Approaches” at its depository institution subsidiaries in the United States in order to comply, on a consolidated basis and according to an agreed roll-out plan, with the EU rules, assuming that there is sufficient convergence of applicable standards and methodologies to make that feasible.

At the same time, BNP Paribas agrees with the rationale of the longstanding supervisory policy reflected in the Federal Reserve Board’s SR Letter 01-01<sup>2</sup> under which a U.S. intermediate bank holding company of a foreign banking organization (FBO) is exempted from complying with the minimum capital ratios in the capital adequacy guidelines applicable to U.S. bank holding companies provided that the FBO is well capitalized and well managed on a comprehensive consolidated basis. Duplicative supervision at an intermediate holding company level would not add value to the supervisory assessment of the operating banking businesses that are separately supervised in the United States. The implementation of Basel II should not change that conclusion, nor should an FBO’s decision to implement the “Advanced Approaches” at its U.S. depository institution subsidiaries, even if that implementation is not required under the U.S. core bank test. BNP Paribas therefore supports the recommendation in the Basel II NPR that capital requirements not be applied to an intermediate bank holding company. For similar reasons, to avoid unnecessary burden and confusion, we strongly recommend that public disclosure requirements (as distinguished from reporting to bank supervisors) should not apply at this intermediate bank holding company level. Capital requirements would continue to apply at both the U.S. depository institution subsidiary and consolidated parent levels, and public disclosure requirements would apply in any event at the parent level. Public disclosures at the intermediate bank holding company level would not contribute to the assessment of the financial strength of the consolidated group and may lead to confusion, since the intermediate bank holding company (consistent with SR 01-01 and the NPR proposal) is not bound to meet the minimum capital guidelines levels. Public disclosure of meaningless intermediate level capital ratios may distract attention from the bank’s and consolidated group’s capital figures and create uncertainty even though the group as a whole is well capitalized.

We finally urge that the U.S. rules for implementation of Basel II be as close as possible to the Basel II Accord, in order to facilitate harmonization within global banking institutions to the maximum possible extent, particularly in light of the potential need for the subsidiaries of institutions such as BNP Paribas to “opt in” to “Advanced Approaches” requirements in the United States to conform to applicable European requirements. Under such circumstances, it is essential that a single set of systems for “Advanced Approaches” capital compliance be able to be implemented both in Europe and in the United States to the maximum extent possible to avoid prohibitive burden and expense given the complexity of the systems involved.

Specifically, it will be particularly important that the wholesale level of large corporate credits be measured consistently throughout BNP Paribas, including the portfolio of its U.S. subsidiaries, based on its central model calibrated on its worldwide data utilizing applicable home country definitions for the risk parameters. A centralized consolidated measurement ensures maximum meaningful statistical reliability and compliance with the “use” test requirement. We recommend that the Basel II Accord be accepted as setting the standards for

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<sup>2</sup> Federal Reserve Board SR Letter 01-01 (SUP) (Jan. 5, 2001).

these definitions or, at the least, be an option opened to the U.S. banks. For example, we understand that the Call Report definition of non-accruing loans may be interpreted in a compatible way with the Basel II Accord default definition and thus may be an acceptable reconciliation of approaches, provided that such interpretation be confirmed by the U.S. authorities. Moreover, there will undoubtedly be some standardized approaches that will be needed for all institutions to deal with credit portfolios of only limited size and marginal significance where development of an internal approach could not be economically justified or statistically feasible. This also suggests that some flexibility taking account of feasibility under the applicable circumstances is appropriate.

It is a very complex and costly undertaking to build a single, reliable advanced methodology for operational risk given the needs for particularized data and for scenario analyses based on core processes. BNP Paribas has accomplished this at the consolidated group level, but it would be wholly infeasible economically and as a practical matter to build systems at individual subsidiaries. We therefore support application of an allocation of consolidated operational risk capital, which would comply with the principles set by the Basel Committee recommendations (February 2007) on home-host supervisory cooperation and allocation mechanisms in an AMA context. If this approach cannot be accepted, then we urge that a standardized approach be available to address the operational risk element at an individual banking subsidiary.

In closing, BNP Paribas notes that it has actively participated in, and fully supports the European Banking Federation (EBF), the Institute of International Finance, Inc. (IIF), and the Institute of International Bankers (IIB) comment letters on the NPR Proposal, which have been or will be submitted to you in a near future. However, we thought useful through this letter to underline BNP Paribas' main concerns and to express our support for the U.S. consultation process, which provides the industry with a useful educating paper (even though debatable on some points) and with an opportunity to identify implementation issues from a broad industry standpoint. BNP Paribas remains optimistic that the main divergences may be overcome, possibly within the current timeframe and we wish to emphasize that a failure to do so would certainly be very detrimental to the international acceptance of a reform that the U.S. authorities have actively been supporting from the start.

BNP Paribas would be pleased to expand upon any of these points if that would be helpful. Please do not hesitate to contact the undersigned (telephone no. 011-33-1-42-98-1234 or via e-mail at [christian.lajoie@bnpparibas.com](mailto:christian.lajoie@bnpparibas.com)) or Paul Glotzer of Cleary Gottlieb Steen & Hamilton LLP (tel. no. 212-225-2314 or via e-mail at [pglotzer@cgs.com](mailto:pglotzer@cgs.com)) with any questions you may have.

Very truly yours,

Christian Lajoie  
Senior Vice President and Basel 2 Group Coordinator